

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-14 IO-14 L-03 H-03 PA-04

PRS-01 USIA-15 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 SS-20 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

FPC-01 DRC-01 /184 W

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P R 150621Z AUG 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6040

INFO AMEMBASSY BANGKOK PRIORITY

AMEMBASSY VIENTIANE

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USADB

FOR NAC AGENCIES

E.O. 11652: DECLASS 8/15/75

TAGS: EAID, EFIN, TH

SUBJECT: PROPOSED ADB LOAN - SECOND POWER TRANSMISSION
SYSTEM EXPANSION PROJECT (THAILAND)

REF: MANILA 4573

SUMMARY: ADB MANAGEMENT PROPOSES \$24 MILLION
EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO
ELECTRICITY GENERATING AUTHORITY OF THAIAND (EGAT)
TO FINANCE FOREX COST OF TRANSMISSION LINES, SUB-
STATIONS, ADDITIONAL TRANSFORMERS, SHUNT CAPACITORS,
CONSULTANT SERVICESV AND INTEREST AND OTHER CHARGES
DURING CONSTRUCTION PERIOD. PROJECT IS SECOND PHASE
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OF SYSTEM EXPANSION TO BE FINANCED BY ADB AND INCLUDES

INTER ALIA, CAPACITY TO FEED ADDITIONAL POWER TO BE PURCHASED FROM NAM NGUM II (LAOS) INTO THAILAND'S NATIONAL POWER GRID (PER REFTEL). USAID RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC R76-74 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES AUG. 9. BOARD CONSIDERATION SCHEDULED AUG. 29.

2. ADB MANAGEMENT PROPOSING US \$24 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO ELECTRICITY GENERATING AUTHORITY OF THAILAND (EGAT). PROCEEDS WILL FINANCE FOREX COST OF 624 KILOMETERS OF TRANSMISSION LINES INCLUDING THE NAM NGUM DOUBLE CIRCUIT 115 KV LINE (NONGKAI-NAKHORN RATCHASIMA 361 KM); AND 263 KM OF SINGLE CIRCUIT QQT KV LINES (RAYONG-CHANTABURI 115 KMV CHA-AM-PRANBURI 55 KMV KANCHANABURI-BAN CHAO NEN 69 KM; AND THALAN 1-SARABURI 4-24 KM); ALSO CONSTRUCTION OF A 230 KV SUBSTATION AT RANGSIT AND 115 KV/22 KV SUBSTATIONS AT CHANTABURI AND PRANBURI; EXPANSION OF NINE 115 KV/22 KV SUBSTATIONS; SIXTEEN OSLZHPPJDGXLWA YPRZXISTING SUBSTATIONS WITH TOTAL RATING OF 493 MVA; INSTALLATION OF 207 MVA CAPACITY SHUNT CAPACITOR BANKS WITH ASSOCIATED APPARATUS AND BUS BAR MODIFICATIONS AT BARIOUS SUBSTATIONSV EXPANSION OF COMMUNICATION SYSTEM, PURCHASE OF EQUIPMENT AND TOOLS, AND CONSULTING SERVICESV INTEREST AND COMMITMENT CHARGES DURING CONSTRUCTION PERIOD. PROPOSED TERMS ARE 20 YEARS AMORTIZATION INCLUDING 4 UEAR GRACE PERIOD; INTEREST RATE TO BE THAT PREVAILING ON DATE OF APPROVAL OF PROPOSED LOAN. EGAT TO BE BORROWER AND EXECUTING AGENCY, KINGDOM OF THAILAND TO BE GUARANTOR.

3. PROPOSED PROJECT WHEN COMPLETED WILL ENABLE EGAT MEET PROJECTED POWER DEMAND BY TYING IN TO NEW HYDRO SOURCES REPLACING HIGHER COST DIESEL OPERATIONS AND IMPROVING OVERALL SYSTEM RELIABILITY AND ECONOMY. INCLUDED WILL BE 115 KV LINE FROM NONGKAI AT LAOS-THAI BORDER TO NAKHORN RATCHASIMA WHICH - IN ADDITION TO TRANSMITTING SURPLUS POWER FROM NAM NGUM IN LAOS (SEE PARA 14 REFTEL) - WILL ALSO BE MAIN TRUNK LINE IN NORTHEAST TRANSMITTING POWER TO LIMITED OFFICIAL USE

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AND FROM OTHER REGIONSM COMPLETION THIS LINE IS SCHEDULED BY END OF 1977 TO COINCIDE WITH ESTIMATED TIME NAM NGUM II COMES ON STREAM TO TRANSMIT UP TO 570 GWH BY 1978, DECREASING GRADUALLY TO 310 GWH BY 1990. PROJECT WILL ENABLE EGAT MEET FORECAST LOAD REQUIREMENTS WITH SUFFICIENT RESERVES COPE WITH EMERGENCY OUTAGES AS WELL AS EFFECT SAVINGS IN EXPENSIVE IMPORTED FUEL OILS BY FACILITATING SWITCH TO INDIGENOUS HYDRO, LIGNITE-THERMAL, AND NUCLEAR

ENERGY-GENERATING RESOURCES. PROJECT WILL ENABLE ECONOMIC & RELIABLE DISTRIBUTION OF EGAT'S EXISTING AND PLANNED ADDITIONAL GENERATION CAPACITY WHICH ESTIMATED WITH INCREASE OF 2286 MW TO TOTAL 4000 MW BY 1982. INCREASED CAPACITY 28 PERCENT HYDRO, 46 PERCENT THERMAL AND 26 PERCENT NUCLEAR NEEDED TO SUPPLY GROWTH IN DEMAND WHICH RAN 30 PERCENT PER YEAR FROM 1963 TO 1973 AND WILL CONTINUE THOUGH AT REDUCED AVERAGE ANNUAL RATE OF 21 PERCENT THROUGH 1983.

4. EXUSTUBG SYSTEM HAS RECEIVED TWO PREVIOUS BANK LOANS, INCLUDING FIRST STAGE TRANSMISSION LOAN IN 1970 (US \$19 MILLION) AND LOAN FOR LIGNITE THERMAL PLANT AT MAE MOH IN 1973 (US \$23 MILLION). EGAT, SOLE AGENCY FOR BULK POWER GENERATION AND DISTRIBUTION IN THAILAND SINCE 1968, SELLS ITS OUTPUT LARGELY TO TWO UTILITIES, PROVINCIAL ELECTRICITY AUTHORITY (PEA) AND METROPOLITAN ELECTRIC AUTHORITY (MEA). MEA HAS ALSO BEEN RECIPIENT OF TWO BANK LOANS (1971 AND 1973) TOTALLING US \$39 MILLION.

5. TOTAL COST OF PROJECT ESTIMATED AT \$42 MILLION OF WHICH FOREX COMPONENT OF US \$24 MILLION TO BE FINANCED FROM PROPOSED LOAN. PROCEEDS WOULD BE ALLOCATED TO: TRANSMISSION LINES (\$6.85); SUBSTATIONS (4.42); TRANSFORMERS AND CAPACITORS (\$4.55) MISCELLANEOUS SYSTEM EXPANSION (\$2.25) AND INTEREST DURING CONSTRUCTION (\$2.44). (ABOVE FIGURES IN MILLIONS.) ENGINEERING SERVICES ESTIMATED AT \$200,000 AND 16 PERCENT CONTINGENCY AT US \$3.29 MILLION.

6. PROCUREMENT TO BE IN ACCORD BANK'S GUIDELINES, WITH CONTRACTS OVER \$100,000 ON BASIS INTERNATIONAL COMPETITIVE BIDDING; THOSE UNDER \$100,000 ON BASIS INTERNATIONAL SHOPPING. CONDUCTORS TO BE FABRICATED LOCALLY (AS UNDER FIRST LOAN TO EGAT AND TWO LOANS TO MEA), USING IMPORTED LIMITED OFFICIAL USE

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ALUMINUM INGOTS FINANCED UNDER FOREX COMPONENT OF LOAN. ALSO, IF AFTER COMPETITIVE BIDDING AND BASED ON LOWEST ACCEPTABLE PRICE AND WITHOUT PREJUDICE TO ANY OF THE PROVISIONS IN THE LOAN AND GUARANTEE AGREEMENTS AND SIDE LETTERS, EGAT CAN ARRANGE FOR BILATERAL FINANCING FOR CERTAIN SUPPLY CONTRACTS, THEY MAY DO SO WITH THE UNDERSTANDING THAT A CORRESPONDING PORTION OF THE BANK'S LOAN WILL BE CANCELLED. (SIDE LTR NO 2, PARA 7). FYI: FOR EXAMPTW, IF A JAPANESE BIDDER WINS AN AWARD AND EGAT IS THEN ABLE TO FINANCE THATSMBUNT THROUGH JAPAN'S OECF AT MORE FAVORABLE TERMS THAN THE BANU CZC LOAN, THIS PROVISION WOULD BE APPLICABLE. END FYI.

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-14 IO-14 L-03 H-03 PA-04

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CIEP-03 SS-20 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 FPC-01 /184 W

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P R 150621Z AUG 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6041

INFO AMEMBASSY BANGKOK PRIORITY

AMEMBASSY VIENTIANE

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7. EGAT, BORROWER AND EXECUTING AGENT IS WELL-MANAGED
HAVING COMPETENT AND TRAINED OPERATIONAL STAFF; PERFORMANCE
WAS SATISFACTORY DURING IMPLEMENTATION TWO PROJECTS PRE-
VIOUSLY FINANCED BY BANK. PAST FINANCIAL PERFORMANCE
CREDITABLE DURING FY 1970-73 WITH 8 TO 10 PERCENT RATE OF
RETURN; DEBT-SERVICE RATION NEVER BELOW 1.6 AND SELF-
FINANCING RATION AVERAGING 33.5 PERCENT. UNIT OPERATING
COSTS HAVE DECLINED ENABLING NET INCOME PER KWH INCREASE
HENCE REVENUES INCREASING FASTER THAN OPERATING COSTS.
FINANCIAL CONDITION SOUND DESPITE 3 GENERAL RATE REDUCTIONS
APPLIED 1964, 1966 AND 1970. TARIFF STRUCTURE INCLUDES
DEMAND CHARGE BASED ON MONTHLY PEAK DEMAND AND ENERGY
CHARGE WHICH DECLINES AS CONSUMPTION GOES UP, THUS EN-
COURAGING MAXIMUM USE OF SYSTEM AND MORE OFF-PEAK DEMAND.
FOLLOWING RECENT PETROLEUM FUEL INCREASES, EGAT FOR FIRST
TIME INCREASED ITS BULK TARIFF LEVEL APRIL 1974 BY 60
PERCENT, AN AMOUNT COVERING ONLY INCREASED FUEL COSTS, NOT
INFLATED EQUIPMENT PRICES. ACCORDINGLY, UNLESS REMEDIAL
MEASURES TAKEN BY EGAT AND GOVT, EGAT WILL FACE HEAVY DEBT
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SERVICE BURDEN, REDUCED CASH FLOW AND CONSEQUENT FINANCIAL DIFFICULTIES IN FUTURE. (TWO PREVIOUS LOANS OBLIGE EGAT MAINTAIN 30 PERCENT SELF-FINANCING CAPABILITY.) AT SAME TIME, MEA- MAJOR CUSTOMER OF EGAT- HAS REMAINED PROFITABLE AND IS REMITTING SUBSTANTIAL QUOTE INCOME TAX CLOSE QUOTE PAYMENTS TO GOVT.

8. NECESSARY REMEDIES INCLUDE THOROUGH STUDY RESPECTIVE FINANCIAL POSITIONS AND CASH FLOWS BETWEEN THREE POWER UTILITIES (EGAT, PEA, MEA) ENABLE ESTABLISHMENT RATIONAL AND INTER-RELATED TARIFF STRUCTURES. GOVT AND EGAT AGREED TO SUCH STUDY (SIDE LTR NO 4, PARA 2), AS WELL AS GAVE ASSURANCE THAT TARIFFS BE SET AND MAINTAINED TO COVER OPERATING EXPENSES, DEBT SERVICE CHARGES AND STILL RETAIN CAPACITY FINANCE 30 PERCENT OF FUTURE CAPITAL EXPNDITURES (LOAN AGREEMENT SEC 5.12). EGAT ALSO AGREED INTRODUCE FUEL PRICE ADJUST CLAUSE INTO TARIFF AND GOVT AGREED RE-SCHEDULE OR CONVERT INTO EQUITY ALL LOANS TO EGAT (AMOUNTING TO \$97 MILLION EQUIV. AS OF 30 SEPT 1973) ON OR BEFORE 1 JAN 1975 TO FACILITATE MAINTENANCE 30 PERCENT SELF-FINANCING RATION (SIDE LTR 4, PARA 1); TAKE OTHER FISCAL AND FINANCIAL STEPS AS REQUIRED. EGAT ALSO AGREES HIRE 4 INDIVIDUAL CONSULTANTS, ELECTRICAL AND CIVIL ENGINEERS, EXPERIENCED IN SUBSTATION DESIGN, STRUCTURAL ENGINEERING AND COMMUNICATIONS TO ASSIST IN REVIEW OF DESIGNS AND SPECS, EVALUATION OF BIDS, AND TECHNICAL ADVICE ON PROJECT IMPLEMENTATION. (SIDE LTR NO 3.)

9. BANK CONSIDERS PROJECT TECHNICALLY, FINANCINALLY VIABLE, PARTICULARLY TIMELY IN VIEW INCREASED OIL PRICES, GIVEN PROJECT'S SAVINGS AND MAXIMIZATION MORE ECONOMICAL ENERGY RESOURCES FOR POWER GENERATION. GOVT ASSIGNS HIGH PRIORITY TO PROJECT UNDER THIRD FIVE YEAR PLAN (1972-96). ALTHOUGH DIFFICULT TO DISAGGREGATE PROJECT BENEFITS FROM SYSTEM AS A WHOLE, UTILIZING DIRECTLY IDENTIFIABLE BENEFITS AND COSTS DEFINED AS GROSS REVENUES MINUS ALL CASH OPERATING COSTS (BUT BEFORE INTEREST) WITH ADJUSTMENTS FOR TRANSFERS (IMPORT DUTIES AND TAXES), ECONOMIC INTERNAL RATE OF RETURN CALCULATED AT 14.6 PERCENT; FINANCIAL IRR INCLUDING TRANSFER PAYMENTS ESTIMATED AT 13.3 PERCENT; AMOUNTS CONSIDERED ACCEPTABLE. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

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10. REQUEST BANGKOK'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA (AND U.S. MISSION VIENTIANE), PURSUANT TO STATE 119795

DTD 3 JULY 1972.
SULLIVAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
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Copy: SINGLE
Draft Date: 15 AUG 1974
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Decaption Note:
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Disposition Approved on Date:
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TAGS: EAID, EFIN, TH, ADB
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